

Is the equity spin-off enough to **unlock** **Daimler Truck's value?**



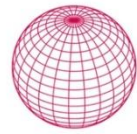
Valuation Master Class



**What's interesting
about Daimler Truck
is that 99.9% of the
shareholders
approved the spin-off**



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DAIMLER TRUCK

Sector: Industrials



Among the world's largest commercial vehicle manufacturers with 500,000 units produced

Our estimate:

EUR33

(Upside 35%)

BUY



3 things to know about this company

- ★ Spin-off allows for enhanced focus on profitability
- ★ Leveraging Asian footprint to drive top-line growth
- ★ Strategic partnership to bring autonomous driving forward

Key statistics

Analyst consensus (19)

EUR39

(Upside 43%)

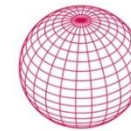
BUY

PE ratio (21A)

9.9x

Dividend yield

na



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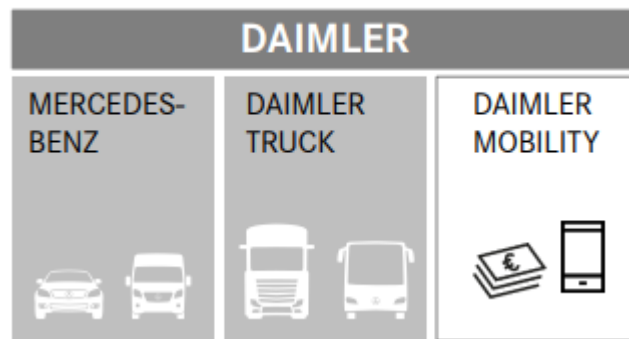
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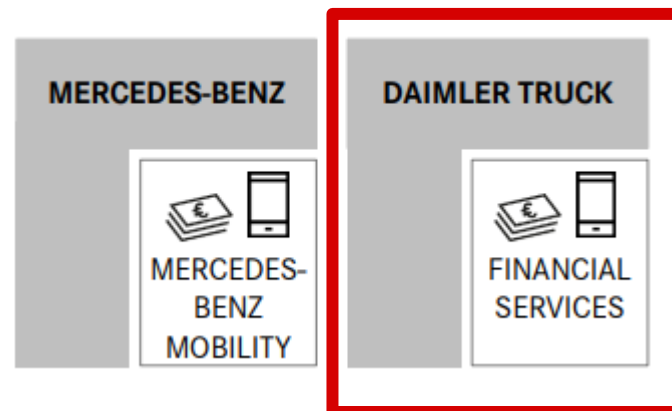
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Risks

Previously



Since Dec 2021



- ★ Daimler Truck became a public listed company in December 2021
 - Shareholders of former Daimler AG (now: Mercedes Benz AG) approved to spin-off the truck segment
- ★ The car segment Mercedes Benz and Daimler Mobility operate now under Mercedes Benz AG

What is an equity spinoff?

- In an equity spinoff, a company decides to create a new entity out of its existing operating business
- The newly created shares are distributed to the existing shareholders (unlike in a carve-out where the company sells its share in an IPO and raises new capital)
- The idea is that two independent companies are worth more than the single entity



Ask
Ajarn
Andrew



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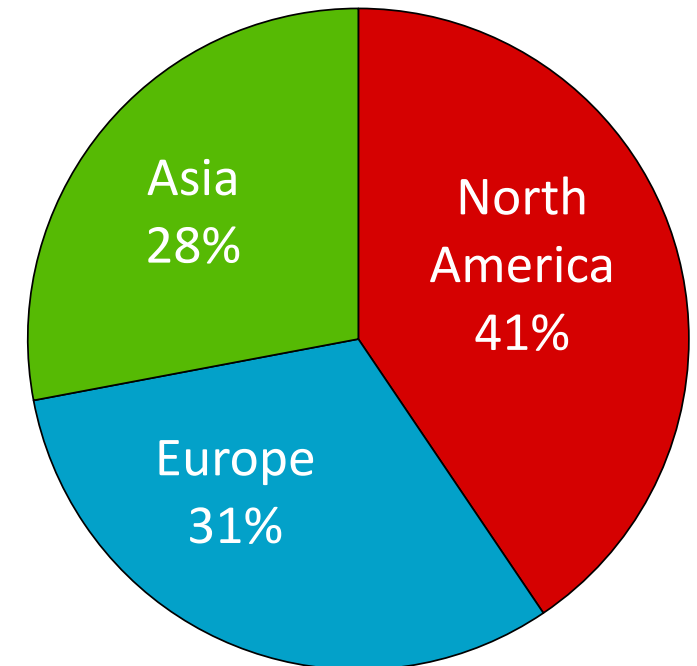
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Risks

After the spin-off, trucks and buses have been separated from the car segment



Breakdown by region



1 Spin-off allows for enhanced focus on profitability



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Risks

B.17			
Value added			
	2020	2019	20/19
In millions of euros			Change
Daimler Group	-591	-2,046	+1,455
Mercedes-Benz Cars & Vans	1,239	-4,317	+5,556
Daimler Trucks & Buses	-616	1,361	-1,977
Daimler Mobility	-316	325	-641

- ★ Daimler uses “Value added” as the most important performance measurement
- ★ Page 43 of the annual report
 - “Value added shows the extent to which the Group and its divisions achieve or exceed the return requirements of the investors, thus creating additional value.”
 - In recent years, Daimler has not added any value

Analyst consensus expects convergence in profitability



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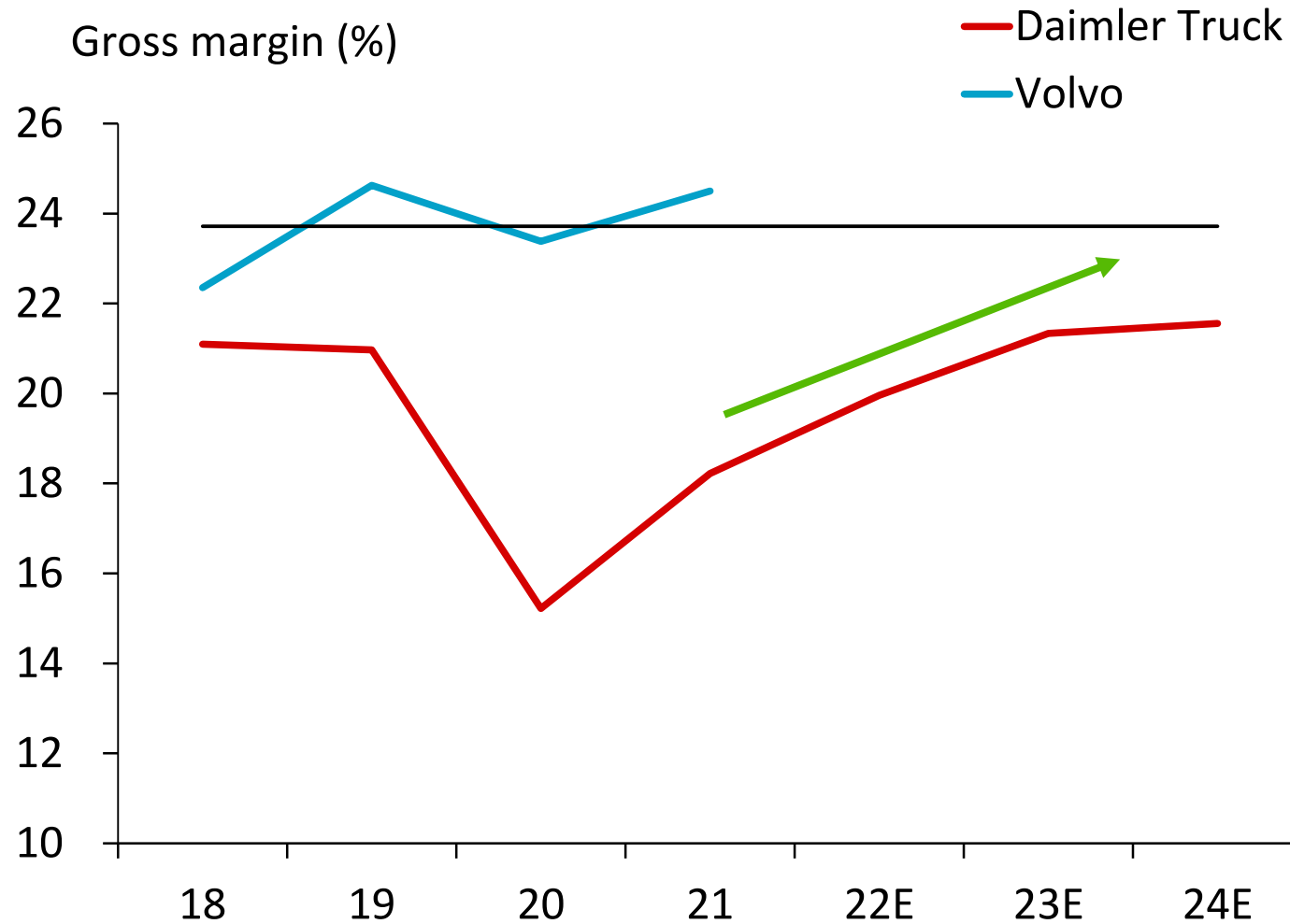
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- ★ Compared to its competitor Volvo, Daimler Truck has shown a worse gross margin
- ★ With the spin-off management hopes that each segment can focus on improving its profitability
 - **Analyst consensus is optimistic that Daimler Trucks can catch up fast and improve its gross margin**

Increasing profitability is No.1 priority



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INDUSTRIAL BUSINESS

MARKET ENVIRONMENT



FIXED COST



-15% VS. 2019



CAPEX / R&D



-15% VS. 2019



PROFITABILITY¹

6 - 7%

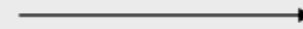
8 - 9%

>10%

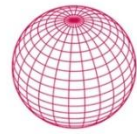
CASH CONVERSION²



0.8 - 1.0X



- ★ In 1Q22, Daimler Truck revealed its plan to reduce costs and boost margins
- ★ It aims to reduce fixed costs by 15% by 2025
 - It also wants to reduce CAPEX and R&D expenditures by a similar amount



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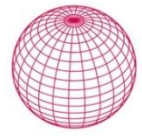
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Risks

Unit sales in thsd.	FY 2020	FY 2021	Change
Mercedes-Benz	118	141	+ 20%
Trucks North America	139	162	+ 17%
Trucks Asia	110	143	+ 30%
Buses	19	19	+ 0%
Elimination *	- 8	-10	
Group	378	455	+ 20%

★ Daimler Truck aims to expand its market position in China as it expects higher growth than in other regions

- Therefore, it has established local brands to meet the different countries' requirements
- Heavy duty trucks are still relatively underpenetrated in Asia, providing robust growth prospects



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Risks



- ★ In 2020, Daimler entered a strategic partnership with Nvidia, the world's largest maker of AI chips
 - **Nvidia's chips are currently the most advanced in the market**
- ★ From 2024 onward, the company will roll out a fleet with fully automated driving functions

Consensus is bullish



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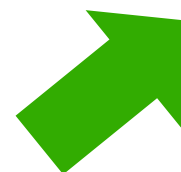
Risks

Analyst consensus valuation

Recommendation	Apr-22	May-22	Jun-22	Current
Strong buy	6	6	5	5
Buy	11	13	13	13
Hold	-	-	1	1
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	1.6	1.7	1.8	1.8

Price target	Apr-22	May-22	Jun-22	Current
Median	37	36	37	35
Mean	41	40	40	39

19
analysts



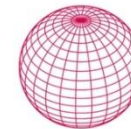
Upside: 43%

Analyst consensus 3-year forecast

(%)	19	20	21	22E	23E	24E
Revenue growth	5.8	(22.1)	10.4	19.6	5.2	1.0
Gross margin	21.0	15.2	18.2	20.0	21.3	21.6
EBIT margin	8.5	0.8	6.9	7.6	8.5	8.8
Net margin	5.7	(1.0)	4.8	4.9	5.5	5.8

- ★ Almost every analyst has a BUY recommendation and believes that the spin-off allows for enhanced value creation
- ★ Analysts predict stronger gross margins which are converging to competitors' levels

Profit & loss statement



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(YE Dec, € m)	2021A	2022E	2023E	2024E
Revenue	39,764	45,729	48,930	50,397
Cost of goods & services	(32,519)	(36,583)	(39,144)	(40,318)
Gross profit	7,245	9,146	9,786	10,079
SG&A	(5,737)	(6,402)	(6,850)	(7,056)
Other operating (exp)/inc	1,251	751	766	781
EBIT	2,759	3,494	3,701	3,805
Interest expense (net)	(35)	(39)	(49)	(50)
Other non-operating inc/(exp)	(14)	(11)	(12)	(12)
Earnings before taxes (EBT)	2,710	3,444	3,640	3,742
Income tax	(891)	(1,137)	(1,201)	(1,235)
Earnings after taxes (EAT)	1,819	2,308	2,439	2,507
Equity income/Minority interest	70	60	64	70
Earnings from cont. operations	1,889	2,367	2,503	2,578
Forex/Exceptionals before tax	458	-	-	-
Net profit	2,347	2,367	2,503	2,578

- ★ Strong rebound in revenue expected as demand for trucks is higher than supply given the current supply chain constraints



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(YE Dec, € m)	2021A	2022E	2023E	2024E
Cash & short-term investments	8,003	7,676	7,739	8,115
Accounts receivable	3,962	4,573	4,893	5,040
Inventories	7,793	8,841	9,460	9,744
Other current assets	8,191	9,146	9,786	10,079
Total current assets	27,949	30,236	31,878	32,978
Long-term investments	1,369	1,465	1,567	1,677
Net fixed assets	11,402	11,833	12,285	12,760
Intangible assets	2,066	2,159	2,254	2,351
Goodwill	634	634	634	634
Other long-term assets	11,380	11,949	12,546	13,174
Total assets	54,800	58,276	61,165	63,574

- ★ Net fixed assets increase slightly as no huge expansions are planned

Balance sheet - liabilities



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(YE Dec, € m)	2021A	2022E	2023E	2024E
Overdrafts & short-term loans	4,978	4,802	4,850	4,898
Accounts payable	4,359	4,878	5,219	5,376
Other current liabilities	8,007	9,146	9,786	10,079
Total current liabilities	17,344	18,825	19,855	20,354
Long-term debt	10,870	11,205	11,317	11,430
Other long-term liabilities	10,163	10,366	10,574	10,785
Total liabilities	38,377	40,396	41,745	42,568
Minority interest	503	539	577	616
Paid-up capital - Common shares	15,100	15,100	15,100	15,100
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	-	1,421	2,923	4,469
Revaluation/Forex/Others	820	820	820	820
Total equity	15,920	17,341	18,843	20,389
Total liab & shareholders' equity	54,800	58,276	61,165	63,574

- ★ Daimler Truck has moderate-to-high leverage with a debt-to-equity ratio of 1x



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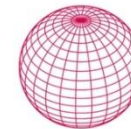
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(YE Dec)	2021A	2022E	2023E	2024E
General growth (YoY, %)				
Revenue	10.4	15.0	7.0	3.0
Assets	nm	6.3	5.0	3.9
Gross profit	32.2	26.2	7.0	3.0
Operating profit	906.9	26.7	5.9	2.8
Attributable profit	nm	0.9	5.7	3.0
EPS	nm	0.9	5.7	3.0
Recurring EPS	845.1	17.3	5.7	3.0
Du Pont analysis (%)				
Net profit margin	5.9	5.2	5.1	5.1
Revenue per €100 of assets	145.1	80.9	81.9	80.8
Assets/equity (x)	3.4	3.4	3.3	3.2
Return on equity	29.5	14.2	13.8	13.1
Others (%)				
Effective tax rate	28.1	33.0	33.0	33.0
Dividend payout ratio	-	39.9	40.1	39.9

★ The company announced to follow a 40% dividend payout policy with effect from January 2022



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(YE Dec, € m)	2022E	2023E	2024E
EBIT	3,494	3,701	3,805
<i>Est tax rate (%)</i>	33	33	33
NOPAT	2,341	2,480	2,549
Add: Depre & amort	866	909	955
Less: CAPEX	(1,297)	(1,361)	(1,430)
Chg in A/R	(611)	(320)	(147)
Chg in inventory	(1,048)	(619)	(284)
Chg in oth curr assets	(955)	(640)	(294)
Chg in A/P	519	341	157
Chg in oth curr liabs	1,139	640	294
Less: Chg in working cap	(956)	(598)	(274)
Less: Chg in invest cap			
Free cash flow to firm	954	1,430	1,800

- ★ I expect Daimler Truck to return to positive FCFF after it was negative in 2021



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Risks

Forecast assumptions		
3-year average	Consensus	My assumptions
Revenue growth (CAGR)	8.3	8.2
Gross margin	20.9	20.0
EBIT margin	8.3	7.6
Net margin	5.4	5.2

My valuation method	
Market: Germany	
Market risk-free rate	2.0
Market equity risk premium	7.0
Market return	9.0
Company beta (x)	1.3
COE	10.8
Valuation Method: FCFF	
WACC	6.5
Terminal growth rate	2.0

- ★ In contrast to consensus, I expect that it takes longer for Daimler Truck to improve its margin
- ★ I value the company by using FCFF and a terminal growth rate of 2%



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Ratios

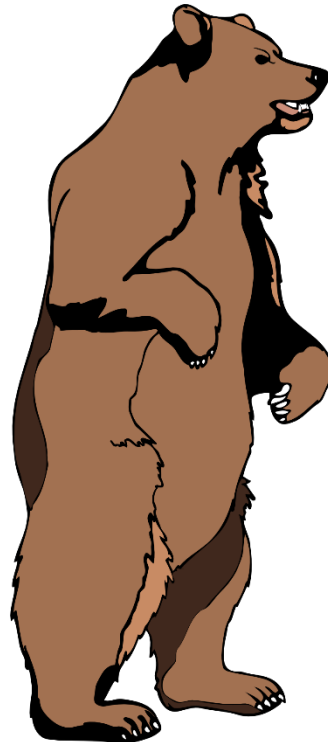
Value

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Bear

EUR27

(Upside 10%)



Base

EUR33

(Upside 35%)



Bull

EUR39

(Downside 60%)





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Risks

- ★ Ongoing supply chain disruptions create shortages (e.g., semiconductor chips) and increase production costs
- ★ Failure to keep up with technological changes could result in loss of market share
- ★ Labor shortage of specialist employees creates competition among car manufacturers

CONCLUSION

- Analyst might forecast drastic changes in fundamentals too early
- In the long run, it should be able to close the gap to competitors in terms of profitability
- Valuation does not look expensive

